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February 23, 2011

Energy and Technology Committee
Room 3900, Legislative Office Building
Hartford, CT 06106

Re: Modernizing Connecticut's Telecommunications Laws

Dear Members of the Energy and Technology Committee:

Thank you for the opportunity to present the following views on the occasion of your hearing to consider S.B. No. 1024.

Regulation of telephone utilities is premised on the fact these entities were once monopolies. The monopoly rationale is no longer valid as a result of turbulent competition. Utility regulation distorts competition, endangers investment in broadband and constitutes an unnecessary burden on taxpayers and ratepayers who ultimately cover the costs of compliance and enforcement.

Incumbent Local Exchange Carriers (ILECs) face competition from Voice over Internet Protocol (VoIP) providers, from cable operators, from wireless providers and from other certificated wireline providers.

Competitive local exchange services and Non-ILEC VoIP services were offered by 10 or more providers in zip codes containing 86.1% of the nation's households in the second half of 2009, according to the FCC.¹ Wireline competitors are offering services in 100% of Connecticut's zip codes.² A well-known cable company, Comcast, has become the nation's third largest phone services provider.³

Nationally, 26.6% of households had only wireless telephones at the end of last year, according to a study conducted by the Centers for Disease Control of the U.S. Department of Health and Human Services.⁴ Another 16% of households received all or almost all calls on wireless telephones, even though they also had a landline phone.⁵ Adding these two categories together, almost 43% of the nation's households either don't have a landline phone at all, or they don't use their landline phone for most of their calls.

It is no wonder the *Economist* recently predicted that if consumers discontinue landline telephone service at the current rate, "the last cord will be cut sometime in 2025."⁶

The competitive offerings are thriving in the near absence of regulation of these services in Connecticut, whereas ILECs remain mired in legacy utility regulation. This situation is unnecessary and counterproductive.

Since nearly all consumers now have a choice of voice communication providers, ILECs have little if any ability to dictate rates or terms or otherwise injure consumers.

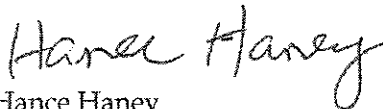
Utility regulation does more harm than good these days, because ILECs' flexibility to embrace efficient new technologies and experiment with new business methods is compromised. Even when pursued for the purpose of promoting "competition," legacy regulation restricts service strategy flexibility and creativity needed for real competition in the Internet age.

From a state perspective, regulation is a most critical factor affecting private investment in broadband. With vibrant competition and rapidly evolving technology, there is no guarantee that investments in broadband will be profitable. Legacy utility regulation needlessly increases risks for investors by creating the possibility of artificial competitive advantages and disadvantages for providers. Regulation jeopardizes genuine competition that rewards private investors on the merits and leads to improved services and ultimately lower prices for consumers.

By removing unnecessary legacy utility regulations that afflict telecom, Connecticut can create proper incentives for private investment in broadband; not to mention reduce the costs of compliance and enforcement which are ultimately borne by the taxpayers and ratepayers.

Thank you for considering these views, which are my own and do not necessarily reflect the views of the Discovery Institute.

Sincerely,



Hance Haney
Director and Senior Fellow
Technology & Democracy Project

¹ "Local Telephone Competition: Status as of Dec. 31, 2009," *Federal Communications Commission* (Jan. 2011) available at http://www.fcc.gov/Daily_Releases/Daily_Business/2011/db0111/DOC-304054A1.pdf, at Table 19.

² *Id.* at Table 20.

³ "Comcast Now the Third Largest Residential Phone Services Provider in the U.S." *Comcast* (Mar. 11, 2009) available at <http://www.comcast.com/About/PressRelease/PressReleaseDetail.aspx?PRID=844>.

⁴ Stephen J. Blumberg and Julian V. Luke, "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January-June 2010 (Dec. 21, 2010) available at <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201012.htm>.

⁵ *Id.*

⁶ "Cutting the cord," *The Economist* (Aug. 13, 2009) available at http://www.economist.com/opinion/displaystory.cfm?story_id=14214847.